2018-19 Debt Management Strategy Consultations

Overview

The Department of Finance and the Bank of Canada are seeking the views of government securities distributors, institutional investors, and other interested parties on issues related to the design and operation of the Government of Canada's domestic debt program for 2018–19 and beyond. Regular consultations with market participants are an integral and valued part of the debt management process. All market participants are encouraged to provide input.

To guide feedback, this document sets out questions on the Government of Canada treasury bill and bond programs, the well-functioning of Government of Canada securities markets, and operational issues. Additionally, there are questions on post-trade transparency and ultra-long bond issuance.

Context

The fundamental objective of debt management is to raise stable and low-cost funding to meet the needs of the Government of Canada. Achieving these objectives involves striking the right balance between the cost and the risk associated with the debt structure under various market conditions and different funding requirement scenarios. An associated objective of debt management is to maintain a well-functioning market for Government of Canada securities, which helps to keep debt costs low and stable.

The Government's debt structure is driven in part by its medium-term debt strategy, which is aimed at maintaining a more even distribution across maturity sectors, while improving cost-risk characteristics over time. The debt structure is also informed by the input received from market participants during consultations. The Government's borrowing needs and issuance strategy for 2018-19 have not been determined yet, but will be communicated in the *Debt Management Strategy for 2018-19*.

Within this context, feedback received through these consultations will help federal debt managers design a debt strategy for 2018–19 that will continue to strike a prudent balance between cost and risk, and to strive to maintain a liquid, well-functioning Government of Canada securities market.

Bond, Treasury Bill and Cash Management Programs

As indicated in the *Debt Management Strategy for 2017-18*, gross issuance of domestic marketable bonds is planned to increase by approximately $7 billion from 2016-17, bringing the total annual bond issuance to $142 billion. After considering scheduled maturities and planned debt repurchases, this will lead to a $575 billion stock of Government of Canada bonds outstanding by the end of 2017-18. The bond issuance pattern for 2017-18 has a total of eight maturity dates; a pattern introduced in 2011-12 along with a revised medium-term debt strategy (Table 1).

The treasury bill program is an important cash management tool, allowing the Government to adjust its debt issuance intra-year to fluctuations in its cash flow. The stock of treasury bills is projected to decrease to $131 billion by the end of the fiscal year. Bi-weekly issuance of 3-, 6-, and 12-month maturities will continue with auction sizes projected to be largely in the $8 billion to $14 billion range.

Cash management bills and Cash Management Bond Buybacks (CMBBs) will continue to be used to help manage the Government's cash in an efficient manner. On January 5, 2017[1], a pilot project for the CMBB program was announced that provided increased flexibility in the maximum repurchase amount. This pilot project will remain in place until further notice.

Table 1: Maturity Date Patterns and Benchmark Bond Size Ranges per Sector for 2017–18 †

($ billions)									# Auctions**
	Feb	Mar	May	June	Aug	Sept	Nov	Dec	
2-year	12 – 18		12 – 18		12 – 18		12 – 18		16
3-year		10 – 16				10 – 16			8
5-year		14 – 20				14 – 20			8
10-year				12 – 18					5
30-year								10 – 16	3
RRB								10 – 16*	4
Total	12 – 18	24 – 36	12 – 18	12 – 18	12 – 18	24 – 36	12 – 18	10 – 16	44

† 50-year bond issuance remains a tactical strategy that is subject to favourable market conditions. There are currently no plans to set up regular issuance of ultra-long bonds.

* Benchmark size ranges for Real Return Bonds include an estimate for inflation adjustment. The 30-year nominal bond and Real Return Bond typically do not mature in the same year.

** The actual number of auctions that occur may be different than the planned number of auctions due to unexpected changes in borrowing requirements.

Consultation Questions:

1. How have the primary and secondary markets for Government of Canada bonds and treasury bills been performing this year and relative to previous years? Where possible please comment on auction and benchmark target sizing, the maturity pattern, liquidity and trading, and investor behaviour.
2. How has the pilot CMBB project (i.e. buyback range from $500 million to $2 billion) been performing since its introduction earlier this year?

Post-Trade Transparency for Government Securities

Post trade transparency is concerned with information on the prices and quantities of executed trades. The current exemption from post-trade transparency for government bonds in Canada, which includes federal, provincial, municipal and agency bonds, is set to expire January 1, 2018. A working group, with representatives from Canadian Securities Administrators, the Bank of Canada and Department of Finance, has been established to design a mandatory post-trade transparency regime to broaden access to information on market valuations. The objective is to improve price discovery and facilitate more

[1] http://www.bankofcanada.ca/2017/01/pilot-government-canada-cash-management-bond-buyback-program/

informed decision making among all market participants while continuing to promote well-functioning government securities markets. Calibrating the level of transparency through appropriate time delays and volume caps is critical to addressing any potential impacts of the new regime. The goal is for the new transparency regime to be in effect in mid-2018, until then the exemption will remain in place.

Consultation Questions:

3. Do you have any views regarding how to best establish a mandatory post-trade transparency regime for government securities and its potential impact on liquidity?
4. With respect to time delays and volume caps, should a simple or more complex mandatory post trade transparency regime for government securities be implemented and why? How should time delays and volume caps be calibrated?
5. Within this context, what are your views on making time-stamped trade data available?

Ultra-Long Bonds

On August 29, 2017, the Government of Canada conducted its inaugural ultra-long bond auction, issuing $750 million of the 2.75% December 1, 2064 bond via modified auction[2,3]. That said, ultra-long bond issuance remains tactical, subject to favourable market conditions and issuance criteria must be met. Potential issuance dates in the future will be communicated through quarterly bond schedules posted on the Bank of Canada website[4]. The ultra-long bond issuance criteria will be evaluated about a week before the potential issuance date. If the issuance criteria are met, a Call for Tenders confirming the size and issuance date would be posted on the Bank of Canada's website[5]. Should the issuance criteria not be met, a market notice would be posted on the Bank of Canada's website indicating this fact and that the issuance would not occur.

Consultation Questions:

6. Please comment on the state of the ultra-long bond market in Canada, including liquidity, and current and potential future demand for Government of Canada ultra-long bonds.
7. What are your views on the August 29, 2017 ultra-long bond auction and new issuance process?
8. Using a variable auction size, with the actual amount issued within a pre-determined range being determined by the extent of competitive bids received at auction, might allow issuance to better match the level of demand. What are your views on the possibility of using this type of auction process to issue ultra-long bonds in the future?

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[2] http://www.bankofcanada.ca/wp-content/uploads/2016/10/terms-ulb111016.pdf
[3] http://www.bankofcanada.ca/wp-content/uploads/2016/10/overview-terms-ulb111016.pdf
[4] http://www.bankofcanada.ca/stats/cars/results/bd_auction_schedule.html
[5] http://www.bankofcanada.ca/markets/government-securities-auctions/calls-for-tenders-and-results/

Appendix

BOND PORTFOLIO

Term to Maturity (years)	Coupon	Maturity	Issuance Sector	Outstanding Net of Repurchased (CAD Millions)	Repurchased (CAD Millions)
Nominal Bond					
0.0	1.5%	Sep 2017	5Y	7,968	2,232
0.2	0.25%	Nov 2017	2Y	9,014	4,386
0.4	1.25%	Feb 2018	2Y	12,504	6,696
0.5	1.25%	Mar 2018	5Y	7,931	2,269
0.7	0.25%	May 2018	2Y	10,766	4,234
0.8	4.25%	Jun 2018	10Y	7,735	2,888
0.9	0.5%	Aug 2018	2Y	12,017	3,583
1.0	1.25%	Sep 2018	5Y	9,473	727
1.2	0.5%	Nov 2018	2Y	13,291	2,309
1.4	0.5%	Feb 2019	2Y	15,600	0
1.5	1.75%	Mar 2019	5Y	10,200	0
1.7	0.75%	May 2019	2Y	15,600	0
1.8	3.75%	Jun 2019	10Y	17,650	0
1.9	0.75%	Aug 2019	2Y	15,600	0
2.0	1.75%	Sep 2019	3Y	16,700	0
2.2	1.25%	Nov 2019	2Y	7,800	0
2.5	1.5%	Mar 2020	3Y	23,200	0
2.8	3.5%	Jun 2020	10Y	13,100	0
3.0	0.75%	Sep 2020	3Y	22,700	0
3.5	0.75%	Mar 2021	5Y	13,800	0
3.5	10.5%	Mar 2021	30Y	567	1,233
3.8	3.25%	Jun 2021	10Y	11,500	0
3.8	9.75%	Jun 2021	30Y	286	4,364
4.0	0.75%	Sep 2021	5Y	15,000	0
4.5	0.5%	Mar 2022	5Y	15,000	0
4.8	2.75%	Jun 2022	10Y	12,700	0
4.8	9.25%	Jun 2022	30Y	206	2,344
5.0	1%	Sep 2022	5Y	15,600	0
5.8	1.5%	Jun 2023	10Y	14,200	0
5.8	8%	Jun 2023	30Y	2,359	5,841
6.8	2.5%	Jun 2024	10Y	13,800	0
7.8	2.25%	Jun 2025	10Y	13,100	0
7.8	9%	Jun 2025	30Y	2,303	6,597
8.8	1.5%	Jun 2026	10Y	13,500	0
9.8	1%	Jun 2027	10Y	15,000	0
9.8	8%	Jun 2027	30Y	4,036	5,564
10.8	2%	Jun 2028	10Y	3,000	0
11.8	5.75%	Jun 2029	30Y	10,903	2,997
15.8	5.75%	Jun 2033	30Y	12,433	977
19.8	5%	Jun 2037	30Y	13,260	739
23.8	4%	Jun 2041	30Y	15,361	439
28.3	3.5%	Dec 2045	30Y	16,400	0
31.3	2.75%	Dec 2048	30Y	14,500	0
47.3	2.75%	Dec 2064	50Y	4,250	0
RRB					
4.3	4.25%	Dec 2021	RRB	5,175	0
9.3	4.25%	Dec 2026	RRB	5,250	0
14.3	4%	Dec 2031	RRB	5,800	0
19.3	3%	Dec 2036	RRB	5,850	0
24.3	2%	Dec 2041	RRB	6,550	0
27.3	1.5%	Dec 2044	RRB	7,700	0
30.3	1.25%	Dec 2047	RRB	7,700	0
33.3	0.5%	Dec 2050	RRB	700	0

Benchmark **Building to Benchmark**

**Source: Bank of Canada as of 31 Aug 2017*

**RRB numbers do not include inflation adjustment*